

Insurance for small business

Main topics

- Insurance basics
- Types of insurance policies
- Insurance brokers – a source of expert advice
- When things go wrong
- Useful contacts

The basics:



- for employers, WorkSafe Injury Insurance is compulsory
- insurance brokers are legally obliged to act in your interests
- buying insurance in packages is generally cheaper
- some policies will suit your business better than others

Insurance basics

Why take out insurance for your business?

Running a business is risky, and often involves putting your own finances at risk. Trying to work out what insurance you need when starting out or even afterwards is difficult. However, running a business with basic insurance is a smart way to manage the risks and reduce uncertainty.

■ **What to insure and for how much?** If you're starting out, working out what to insure against before you've even made a profit is hard. Will you insure for every possible risk, or just the most likely? Which are more likely in your business? How much cover do you need? If you over-insure you waste money, and if you under-insure and then make a claim, the insurance company can reduce what they will pay you. This information sheet lists the common risks you can insure for and suggests how to get the best deal.

■ **What is 'under-insurance'?** When you take out a policy for a certain amount of cover, and it's less than the value of what's being insured, the insurance company can (legally) reduce what it pays you for any claim, including small claims. Insurance companies use different ways to work out how much they'll reduce a claim by if you're under-insured. Check your policy for details.

■ **What insurance do I need by law?** If you employ staff, by law your business needs WorkSafe Injury Insurance in case they're injured. If you're an employee of your own incorporated company, you'll need WorkSafe Injury Insurance to cover yourself. If you're a sole trader or in a partnership, you're not eligible for WorkSafe Injury Insurance, so a wise move is to get sickness and accident insurance. Sole traders and partnerships should also consider income-protection insurance. Even though not legally required, operating without a public liability policy for the business is not recommended.

■ **You can tailor a policy to suit your business** Insurance policies can be changed to suit your needs. If a policy doesn't cover a particular risk in your business, you can ask to have a separate clause added to the policy. To save money and avoid buying policies you don't need, consult with an insurance broker or get quotes from several insurance companies.

■ **Packaging several policies together is generally cheaper** Try to buy your insurance from a company normally offering business insurance instead of one selling mainly domestic insurance. Combined types of insurance (small business 'packs') are available. Some examples of these are commercial, shop, retail, industrial, office, trades, and business vehicle insurance.

■ **Payments (premiums) can be paid in instalments** Insurance companies often let you pay premiums in monthly instalments, but some will charge extra.

Tip

Some industry associations buy insurance in bulk to offer better deals to their members.

If you belong to an association, contact them to find out if they can help you. Your association's insurer is also more likely to know about risks common or unique to your industry.

They may also offer income protection insurance which most people don't realise is tax deductible.

Insurance for small business

Watch out!

Your home insurance does not cover you for legal liability if you're running a home-based business.

Be certain to take out a business public liability policy, as this becomes void in a domestic policy. Car insurance is also affected if the car is used for business purposes.

Tip

To understand insurance for exporting or importing, talk to a freight forwarding company. Look in the Yellow Pages.

This is a complex area of insurance as responsibility for the goods changes several times between their dispatch and their delivery.

Types of insurance policies

('Essential' and 'worth-considering' are just a guide. Make your own assessment based on your needs.)

Essential policies	Cover against
Professional indemnity	If you supply advice you can be sued for financial loss due to errors or omissions. The cover should stay in force even after you give the advice, if you retire etc. Examples of professionals are: architects, designers, education workers, real estate agents, health workers and consultants. Extended cover is 'run-off cover'.
Personal accident, illness or disability	Your inability to work and loss of income. Unless you are an employee of a proprietary limited company, WorkSafe Injury Insurance won't cover you.
WorkSafe Injury Insurance	Claims from the death, injury or illness of employees arising from their employment. Includes legal costs. This insurance is compulsory.
Fire and perils	Damage to buildings or contents by fire, lightning, explosion, malicious damage, earthquakes, storm and water. Most fire and perils policies don't cover you for flood damage caused by overflowing watercourses e.g. rivers.
Burglary	Theft involving violent, forcible entry, loss or damage to stock, goods held in trust and all contents for which you are responsible within the premises. Does not normally cover theft by employees or others entitled to be on the premises.
Engineering equipment	Some plant has to be inspected every year and certified. Usually comes with engineering policy, with cover for equipment risks like breakdown and explosion.
General property	Loss of tools of trade or profession, stock in trade and office contents, whether they are at or away from the premises.
Goods in transit	Loss or damage to your property while in transit, either within Australia or overseas. This can also include laptops used in your business.
Products liability	Claims of goods causing injury or damage. If you sell, supply or deliver goods, even if you repair goods or supply them as a service.
Public liability	Third parties suing you for personal injury or property damage they sustain while on your property if you're negligent.
Worth considering	Cover against
Business interruption	Provides cash flow based on expenses and expected net profit if business is interrupted by damage to property by fire or other insured perils. Make sure the policy goes on until the business income reaches what it was before the loss.
Directors and office bearers liability	Cost of civil legal action if directors and officers of companies and non-profit organisations are sued for negligence carrying out their duties and responsibilities.
Employee dishonesty or Fidelity guarantee	Loss of money or goods due to the fraudulent or dishonest conduct of an employee for their own gain, or the benefit of other persons or organisations.
Electronic equipment and breakdown	Cost to replace computers and data re-entry after an insured event e.g. a fire.
Employment practices liability	Claims and legal costs by employees for employment-related allegations. Examples: sexual harassment, wrongful dismissal, or discrimination on the basis of age, race, sex or religion. Covers your firm, directors and officers.
Glass breakage	Accidental breakage to a shop window, glass display case or refrigeration cabinet.
Income protection insurance	Loss of income to the age of 65 by disability. This is an allowable personal tax deduction. Often overlooked and confused with WorkSafe Injury Insurance. Some super schemes offer it at a reduced rate.
Key person insurance	Death or long-term disability of a 'key person', usually someone vital to the continued running or profitability of the business.
Loss of money	Theft of cash and items such as postal orders, cheques and stamps from business premises or while in transit.
Machinery breakdown	Loss due to fusion ('burning out') of electric motors used in your business.
Perishable food or stock deterioration	Cost of replacing food or other stock due to refrigeration or power failure.
Motor insurance	All company/business vehicles must be insured for third party injury liability. A comprehensive policy covers third party property damage and own damage.
Product recall	Cost of recalling a product, except for malicious acts, such as food tampering.
Tax audit	If you're audited by the Australian Tax Office, covers the cost of your accountant preparing information required to a fixed limit.
Trade credit	Losses caused by bad creditors, especially if the business relies heavily on credit, you are moving into a new market or dealing overseas on credit terms. It can also be used if your industry looks like it is heading into a downturn.
Unregistered equipment	Insures unregistered machines such as backhoes, excavators and diggers for damage as well as theft. You'll need a separate third party liability policy for these.
Weather	Loss of crops, trade or an activity not going ahead because of weather.

Insurance for small business

Tip

Generally the cheaper the policy, the more restrictive the policy. Make sure you read what isn't covered in the 'exclusions' section.

Tip

If you're about to take out a policy, think about the likely risks to your business. If the policy is vague on these or they're not mentioned, ask for an extra clause to be added to the policy. This reduces the chance the insurer will be able to say they weren't notified of the risk.

Checklist

What to ask when choosing a broker:

their qualifications	✓
who will service the account	✓
the number of insurance companies they have access to	✓
what experience they have with your size and type of business	✓
their services	✓
how they charge	✓
referees — especially those with your type of business	✓
if they're members of the National Insurance Brokers Association (NIBA) and subscribe to the General Insurance Brokers' Code	✓

Insurance brokers — a source of expert advice

Use an expert – use an insurance broker An insurance broker is a professional insurance expert who will represent your interests if you have to make a claim. This contrasts with an insurance company or insurance agent who may act in their own interests or those of the insurance company. The more insurance companies your broker has access to, the more likely it is they can offer you an effective policy at the best price.

Choose a broker who understands the day-to-day risks of your business. If you do, you'll get a policy that covers the risks particular to your business and not just the standard (although potentially catastrophic) events like a fire. For example, a customer of a beauty salon sued the salon after an adverse skin reaction. The insurance company wouldn't pay the claim as they 'weren't notified of the risk'. A competent broker would have added a clause to cover adverse skin reactions when they prepared the policy.

Some types of business are classed as hazardous risks and it's hard to get insurance for them. It's likely only a broker will know where to find the best cover. If you go directly to an insurer you'll be told what cover they have and what they're prepared to offer you at the time.

Insurance brokers:

- are experts at matching business needs with available insurance
- can put together a business insurance package, and these usually cost less than if you take out several policies separately
- are licensed and regulated by Australian Securities and Investments Commission (ASIC) and their own code of conduct and practice
- can offer special risk management services and technical advice
- are helpful when you need to make a claim as they can be present when the loss assessor visits or can help negotiate a settlement (for a service fee)
- can independently run all your insurance business as ongoing consultants and will advise you when they make a change or charge a fee
- charge fees, some of which are tax deductible

How do I choose a broker? Choose a broker who has access to at least several insurance companies and deals with your size and type of business. To find the brokers in your local area, visit the National Brokers Association (NIBA) 'needabroker' website (contact details on the last page).

Once you've found several, make an appointment to see each one and:

- decide if you want to deal with a small or large firm
- ask them to write you a proposal (use the checklist at the left to help ask the right questions)

What does a broker charge, and can the fees be refunded? Brokers are paid by salary, fees and bonuses. They get commissions from 0-25% per policy from insurance companies and underwriters. A broker's fee depends on how much advice and work they need to do. Some of the broker's fees may be allowable tax deductions.

What else can a broker advise on? Some brokers can prepare a risk assessment. This takes some of the guesswork out of how much cover you need. It may also help you reduce your risks and policy costs.

Insurance for small business

When things go wrong...

Tip

Make sure any policy for loss of business income goes on until your business income reaches the same figure it was before the fire or loss.

- Insurance is a financial product regulated by the federal *Corporations Act 2001* and the *General Insurance Reform Act 2001*. Insurers abide voluntarily by the *General Insurance Code of Practice 2005*.
- Brokers act on your behalf in a dispute with an insurance company and are bound to act with integrity under the *Financial Services Reform Act 2004*, the *Corporations Act 2001*, and the *Insurance Brokers Code of Practice*.
- Each insurance company and broker company must offer an internal complaint resolution service. If there's a dispute, you'll be expected to try to solve the dispute with the broker or insurance company first.
- You can register a claim against your insurance company with the Victorian Civil and Administrative Tribunal (VCAT) or the Insurance Ombudsman.
- You can take a dispute with an insurance broker to Insurance Brokers Disputes Limited (IBD). To hold a licence, brokers must be part of an approved external consumer complaints-handling scheme run by Insurance Brokers Disputes (IBD) Limited.

Finding a broker and getting more information

National Insurance Brokers Association of Australia (NIBA) Also operate the 'needabroker' website	Level 18, 111 Pacific Highway, North Sydney NSW 2060 (02) 9964 9400	niba.com.au needabroker.com.au
All small business enquiries	Small Business Victoria Visit the Victorian Consumer & Business Centre, Ground Floor, 113 Exhibition Street, Melbourne VIC 3000 Victorian Business Line (VBL) 13 22 15 TTY (telephone typewriter) Service (03) 9651 7596	business.vic.gov.au business.vic.gov.au/vbc
WorkSafe Victoria Compulsory WorkSafe Injury Insurance and safe workplaces	WorkSafe Victoria Ground Floor, 222 Exhibition Street, Melbourne VIC 3000 (03) 9641 1444 or 1800 136 089	worksafe.vic.gov.au
	For your nearest Victorian Business Centre call the Victorian Business Line (VBL) 13 22 15	

Solving disputes with insurance companies and insurance brokers

Insurance Ombudsman Service Impartially resolves general insurance disputes between consumers and participating companies.	Insurance Ombudsman Service PO Box 561, Collins St, West Melbourne VIC 8007 1300 78 08 08	insuranceombudsman.com.au
Insurance Brokers Disputes (IBD) handles complaints and help resolve problems between insurance brokers and their clients. ASIC has approved IBD as the external complaint resolution service for brokers.	Insurance Brokers Disputes Limited (IBD) Level 5, 31 Queen Street, Melbourne VIC 3000 1300 780 808 or (03) 9613 7366	ibdLtd.com.au
Victorian Civil and Administrative Tribunal (VCAT) can handle disputes with insurance companies under the <i>Fair Trading Act 1999</i>	55 King Street, Melbourne VIC 3000	vcat.vic.gov.au

For more information:

- call Business Victoria on **13 22 15**
- visit the Business Victoria website at **business.vic.gov.au**
- visit a Victorian Business Centre (VBC). Go to **business.vic.gov.au/vbc** for a list of VBC locations.

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